



441 G St. N.W.
Washington, DC 20548

January 9, 2023

The Honorable Charles E. Grassley
United States Senate

Dear Senator Grassley,

This letter responds to your December 12, 2022, inquiry regarding the status of GAO's recommendations to IRS included in our report titled, "Tax Administration: Opportunities Exist to Improve Oversight of Tax-Exempt Hospitals," GAO-20-679.

As noted in your letter, IRS had previously implemented two of the four recommendations. Of the two recommendations that were open at the time of your inquiry, IRS has addressed one while the other remains open. Specifically, we recently closed the recommendation that IRS assess the benefits and costs, including the tax law implications, of requiring tax-exempt hospital organizations to report community benefit expenses on Schedule H by individual facility rather than by collective organization.

We closed this recommendation because in August 2021, IRS qualitatively assessed the benefits and costs of requiring community benefit reporting on a facility-by-facility basis. The Exempt Organizations Director signed a memorandum accepting IRS's assessment of the advantages and disadvantages and the ultimate decision not to proceed. IRS provided additional information about this assessment in June 2022 that described its decision process. According to IRS's assessment, such reporting would impose greater burdens on tax-exempt hospitals and IRS with no tax administration benefit. Specifically, IRS determined that because the exemption is granted at the organization level, reporting community benefits at the facility level will provide no additional tax administration benefit.

Regarding the recommendation to update Form 990, including Schedule H and its instructions, we consider the steps IRS has taken to be insufficient to fully address our recommendation.

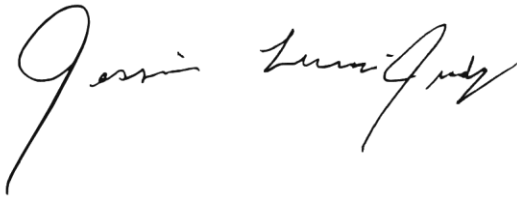
IRS did make minor adjustments to Form 990 Schedule H instructions to indicate that responses should include all of the community benefit factors. However, the changes are not sufficient to ensure that community benefit information is clear and can be easily identified by Congress and the public, as we recommended. For example, three of the factors are addressed through open-ended, narrative responses that are not part of the quantitative, machine-readable files that IRS releases to the public. A revised Form 990, Schedule H that enables tax-exempt hospitals to present community benefit information clearly, consistently, and comprehensively could help IRS, Congress, and the broader public better understand the full scope of the community benefits a hospital provides and whether the benefits sufficiently justify a tax exemption.

As we stated in our report, Form 990, Schedule H solicits information inconsistently, resulting in a lack of clarity about the community benefits hospitals provide. As we reported, we identified hospitals that did not address whether they had an open medical staff policy, a board of

directors drawn from the community, or the use of surplus funds to improve patient care, facilities, or equipment. Specifically, IRS asks hospitals to describe in the open narrative field additional information important to understanding the full scope of the community benefits they provide. However, in doing so, those three factors are suggested only as examples hospitals could use in their description. While IRS has adjusted the instructions to indicate the responses should include all of the community benefit factors, this open-ended reporting structure can affect the comprehensiveness and consistency with which a tax-exempt hospital presents its community benefits.

If you have any questions about this letter or need additional information, please contact me at (202) 512-6806 or lucasjudyj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, reading "Jessica Lucas-Judy". The signature is written in a cursive, flowing style.

Jessica Lucas-Judy
Director, Strategic Issues